

Some respite as Q2 2018 growth beat expectations at 5.3% yoy

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Highlights

- Q2 2018 growth was stronger at 5.3% yoy, beating our forecast at 5.2% yoy and the Bloomberg median consensus forecast at 5.1% yoy.
- Growth was driven by stronger expansion in household consumption which finally edged above the 5.0% yoy mark to 5.1% yoy.
- The IDR modestly strengthened against the USD, but it remains to be seen if this will last given the ongoing trade tensions and interest rate normalization.
- At this point, we still forecast growth for the full year to be at 5.1% yoy as this momentum may not sustain into 2H18 given the historical volatility in government consumption, pressure points on household consumption and uncertainty regarding investment.

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There was much to rejoice as Q2 2018 GDP growth came out stronger at 5.3% yoy (Q1 2018: 5.1% yoy), beating expectations. This was above both our forecast of 5.2% yoy and the Bloomberg median consensus forecast at 5.1% yoy. The number will provide some relief for both the central bank and the government that has been overseeing rate hikes amid a pressured IDR and had hiked a cumulative 100bps since May 2018.

Growth this time around was driven by a stronger expansion in household consumption which finally ticked above the 5.0% mark for the first time since Q3 2016. Household consumption grew a 5.1% yoy, possibly backed by higher spending during the Idul Fitri holiday in June. This is also in contrast to the previous year where household consumption grew at a sluggish 4.9% yoy during Q3 2017, the period when the Idul Fitri holiday occurred for 2017. However, it is key to note that this year, headline inflation has been lower and more stable around a range of 3.1% to 3.4% between January 2018 and July 2018. Headline inflation in 2017 was markedly higher, averaging 3.80% yoy for the entire year and being in a range of about 3.3% to 4.4%. Going forward, we will still be cautious if this stronger consumption momentum can continue, as we monitor various indicators such as inflation, the IDR value and the interest rate.

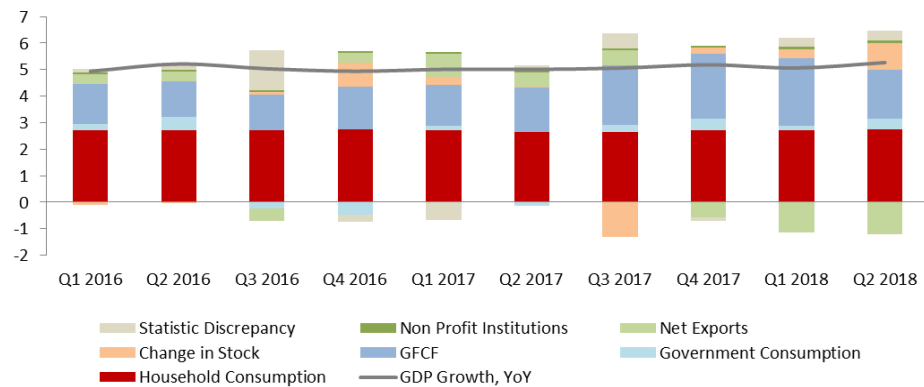
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Investment grew slower but at a still healthy pace of 5.9% yoy (Q1 2018: 7.9% yoy), whilst government spending expanded more strongly at 5.26% yoy (Q1 2018: 2.74% yoy). Growth in investment had been above the 7.0% mark for the previous three quarters. Investment growth this time around has been mainly driven by spending on

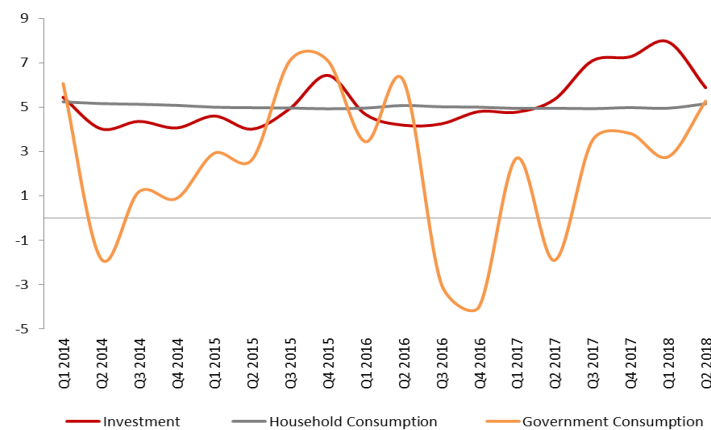
building, machineries, vehicles and equipment. The expansion in government consumption is the highest it has been since Q2 2016 when it grew at 6.21% yoy.

Post-GDP, the IDR did edge up against the USD amid some market relief. BI Deputy governor Dody Budi Waluyo said the 2Q18 GDP growth was “positive” for the IDR as domestic economic activities kept rising despite external uncertainties and the central bank would continue to use the interest rate policy to anchor inflation expectations and to stabilize the IDR. However, similar to other Asian currencies, the IDR will still face external pressures from the global uncertainties such as the US-Sino trade tensions which has not shown any signs of receding so far. Furthermore, a faster than expected pace of interest rate normalization and withdrawal of QE and liquidity in the developed economies may also weigh in on EM currencies. For the rest of this year, we still expect the IDR to continue to be pressured with our year-end forecast at 14,633 against the USD.

Going forward, we continue to hold our full year 2018 GDP growth forecast at 5.1% yoy. This is slightly below the 5.3-5.4% forecast as suggested by Darmin Nasution, coordinating minister for economic affairs. We remain cautious if the momentum in the growth of household consumption can continue amid various pressure points including the IDR value. Investment could remain strong but we will still be wary of any business caution going into the 2019 presidential elections with campaigning likely to start next month. Growth in government consumption has also historically proven to be relatively volatile (see chart 2).

Chart 1: Contributors to GDP Growth, %

Source: OCBC staff calculations based on CEIC data

Chart 2: Growth in Investment, Household and Government Consumption, % yoy

Source: OCBC staff calculations based on CEIC data

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